



The NAAFA Report.....

Our Mission Statement

The Association shall strive to provide professional fellowship by dedicating its activities to furthering the highest degree of ethical service to the insuring public. The Association will support the strictest adherence to the integrity of its members as professional insurance agents. We will promote professional conduct and protect the legislative interests of our members through awareness and understanding of the issues facing the independent contractor insurance agent in the American society.

Who We Are

The National Association of American Family Agents (NAAFA) is a professional organization established to promote education and communication between American Family Agents and American Family Insurance Company, for whom the Agents supply the lifeline that enables American Family Insurance to exist. Our desire is to be a vital, active group who is interested in sharing our experiences and knowledge with other agents, always encouraging, listening, and growing in ways that not only profit the Agents, but the Company and Customer, as well.

www.NAAFA.com

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ETHICS.....YOU DECIDE!!

- **How would you feel if you knew American Family was robbing you in order to support AASP agents? Would this be ethical?**
- **How do you think officials at American Family would feel if they found out an agent was writing life policies knowing full well an agreement had been made with his/her clients to cancel them as soon as the contest was over? Would this be ethical?**
- **How would you feel if you knew American Family had plans to “transfer” some 167,000 policies to AASP agents in order to “keep them afloat?” Would this be ethical?**
- **How do you think American Family would feel if they found out an agent was “coaching” a client on how to “successfully” (or fraudulently) file a claim in order to collect? Would this be ethical?**
- **Knowing that 167,000 policies could represent some 111 American Family agencies that needed to be eliminated in order to supply policies needed to be transferred to AASP agents, how would you feel if American Family eliminated YOUR agency? Would this be ethical?**
- **How do you think your office partner would feel if you reported him/her for consistently lying on applications? Would this be ethical?**

These are very difficult questions and as you can see, **ethics works both ways**. Unethical behavior can occur at both ends of the spectrum.

NAAFA has done some interviewing of American Family agents regarding the issue of ethics. We found it very interesting that most agents feel corporate ethics at American Family may be somewhat less than “ethical!” However, 60% of the agents interviewed

said they would not report a fellow agent for breaking the law. Interesting? Yes, but NAAFA wanted to take the study of ethics a bit further. We wanted to know where agents thought their *own* ethics stemmed from. We wanted to know if agents felt a person could have one set of ethics at home and another at work. We wanted to know if there was a certain point people reached in their daily lives where they felt they had to sacrifice their own set of ethics and what that reason(s) was.

First of all, we asked agents to define the word *ethics*. Some said ethics is what you deem as right and honest. One agent said an ethical person is one who is honest, loyal, moral, doesn't lie or cheat, treats others the way he wants to be treated, and always obeys the law. Some felt ethics starts at home. Some felt they learned it in school. One agent even felt you were born with it. By far the majority of agents felt ethics were learned by observation (role models) and by the training received from one's parents. Several agents mentioned the truths of God as being the yardstick for measuring right from wrong. Religious training, many said, played a big role in many agents' lives and had a profound effect on their own ethical behavior.

B.F. Skinner said that even though one is trained to be ethical by whatever means (parents, school, church, etc.) the final decision to "be ethical" comes only after reflection, evaluation, choice, and a conscious intent by the person because ethics is always an inside-out proposition. In other words, a person chooses to be truthful. A person chooses to lie. A person *makes that choice*.

Utah Billionaire Jon M. Huntsman Sr. says in his book, "Winners Never Cheat" (Wharton School Publishing) that he feels corporate malfeasance and dishonest acts are thriving as a result of **forgotten** values and rationalizations. He says, "I think we have little by little ground ourselves down to *not* know the difference between right and wrong. I think this is an evolutionary process that has gone on over the last 30 to 50 years, where lawyers have played a much more defining role in using the color gray in defining contracts instead of black and white."

Huntsman is not alone in his feelings. David Callahan has written a book called "The Cheating Culture: Why More Americans Are Doing Wrong to Get Ahead." In it he says there is an increasing number of people---not just in business---willing to cheat on their taxes,

embellish resumes or lie to their auto insurance company about a claim.

Huntsman, founder and chairman of Salt Lake-based chemical company Huntsman Corporation, *feels he has met few completely honest individuals* in the 40 years that he has been negotiating Wall Street deals. He says, "You go into a business meeting today and you're on guard immediately. You go in with a spirit that, I'm not going to let somebody take away something that's mine. You go in with an attitude of being on guard today rather than an attitude of how do we *build together* and *how do we figure out how to be a partner*."

American Family agents have expressed similar concerns to NAAFA. They say they feel upper management is only looking to make a profit. That goal is so important that they would do anything to achieve it, regardless of who they have to hurt to do it. However, NAAFA recognizes that American Family must be socially responsible to its client/owners and to its sales and service force. A profit is absolutely necessary, but the manner in which profitability is achieved should be reevaluated. Some have even said they knew of companies (not insurance companies, however) whose goal was to *help* the employee or independent contractor succeed. It was recognized that both the company and the agents must set goals. The difference comes in how to go about achieving these goals.

Agents said that often the impression they get is that American Family doesn't want its agents to be successful or independent minded. In fact, one agent reported that her district manager was reported to have said the company suggests they hire Type B agents rather than Type A. In other words, the company no longer wants to hire aggressive types, but submissive types. Ever wonder why that is??

Although a lot is being written today about questionable corporate ethics, not all blame for poor ethics can be placed on the corporation. In our survey, we found that about 60% of the agents felt you "sometimes have to *bend the rules* even if you don't want to." Some of these agents felt that "people do what they *must* do---not what they *ought*." This group felt that pressure and desperation often make people do things they should not do. Others admitted you sometimes have to do things just to "keep the peace" or "protect your job."

When asked what reasons they might use for sacrificing their ethics, some of the answers given were:

- 40% A “desire for money.”
- 40% A “desire to be successful.”
- 20% A “desire or need for recognition.”

Theologian Matthew Fox said that money becomes the sole **reason** we work and success becomes the **excuse** we use to justify the immoral consequences of our behavior. But aren't work and business all about making money, one might ask. Businesses have a moral obligation to make money. But *business is also about people...the relationship is intertwined.*

Businesses cannot run without people. In our interviews, we found that 40% of the agents felt that people often have two sets of ethics...one at work and one at home. Many people would never do at home what they would easily do at work. Most agents felt, however, that **proper ethics require one to consider the effect his/her own behavior has on others.** The **non-ethical person focuses on how to achieve or satisfy his/her own wants and desires.**

Agents have reported to NAAFA that they have observed the **sacrificing of ethics** by American Family management. Some agents indicated they believe management *lowers* their ethical standards simply *because they are told to.* You don't question authority, some believe. You do what you have to do to survive. When several agents in one district are given 6-month termination letters because of production, but agents in another district with similar production are *not* given termination notices, it appears as though American Family is promoting unethical behavior by its management. Why? Has this action been totally at the district manager's own discretion? Or has this order come down from upper corporate management?

When agents were asked to **name the department at American Family they thought might be the least ethical**, we got a variety of answers. Some felt district managers and state directors were the most unethical because they were trying to “climb the corporate ladder” and needed to impress their bosses. Some agents felt unrealistic requirements were placed on district managers who, in turn, passed these requirements on to agents. Some agents complained about the claims department, especially in its treatment of inner city customers. **The single biggest unethical complaint was the passing (by the Company) of data entry duties on to agents and their staff, especially when higher and higher sales quotas are being forced upon the agents.**

But still, 80% of the agents, when asked to rate American Family Corporate either #1 mostly dishonest, #2 sometimes dishonest, or #3 never dishonest, rated American Family with the “#2 sometimes dishonest” rating. So generally, it would appear, agents don't feel the American Family Corporation is as dishonest as Mr. Huntsman found his corporate acquaintances to be. Of course, your next comment might be that **dishonesty** and **poor ethics** aren't exactly the same. Are they? We'll let you decide.

NAAFA received some interesting answers when the question was asked: **Does everyone cheat?** One agent said he thought most people are honest, however, he noted that one of the problems we have today is that our society reflects an atmosphere of “not being totally honest” such as when our former president admitted to lying about “not having sex with that woman!” Another agent said, “No, everyone does not cheat. It would depend on what you perceive “cheating” to be and in what circumstance.” Another said “cheating is relative to one's definition. People often rationalize not playing by the rules.” Still another agent said “everyone cheats to some extent...it may be very small or very large, but no one is perfect.”

According to R. Edward Freeman, the Academic Director of the Business Roundtable Institute for Corporate Ethics, **ethics is “how we treat each other, every day, person to person. If you want to know about a company's ethics, look at how it treats people—customers, suppliers, and employees. Business is about people. And business ethics is about how customers and employees are treated.”** Is he right? If so, can we say American Family is treating its customers fairly? Is American Family treating its employees fairly? Is American Family treating its agents fairly? You decide!!

This brings us to the topic of **leadership.**

St. Augustine said something to the effect that regardless of the outcome, the first and final job of leadership is the *attempt to serve the needs and the well-being of the people led.* Business leadership would be so simple if all corporations had to do was produce a product or service. But things are not that simple because business leadership must deal with people...employees, customers, etc. *Leadership is always about self and others.* Gary Wills, Pulitzer prize-winning historian, says that the “leader most needs followers. When those are lacking, the best

ideas, the strongest will, the most wonderful smile have no effect.” A leader can only lead if followers allow him to. Wills argues that **successful leaders need to understand their followers far more than followers need to understand their leaders.** (*Certain Trumpets by Wills*, New York: Simon and Schuster, 1994)

So what is a good leader? Peter Senge says an effective leader recognizes that in order to build and achieve community, **followers must become reciprocally co-responsible in the pursuit of a common enterprise.** Gail Sheehy says that *character* is the most crucial and elusive element of leadership. And character is developed by one who acquired certain traits imposed upon one by life and experience and by also having inborn talents and etched-in personality factors. The character of the one who leads us is vitally important because **whom we choose to lead is what we shall be.** We should ask “Has American Family chosen the right leader?” We should ask “Have we chosen to follow the right leader?”

And of course, the famous Hewlett Packard motto: The achievements of an organization are the results of the combined efforts of each individual” is really what American Family agents want their leadership in Madison to realize. **American Family is what it is because of the combined efforts of all who work for American Family. American Family is not what it is because of certain CEO’s or certain Boards.** In an ideal world, leaders would praise followers and followers would praise leaders.

How do *you* really look at the corporation? Do you agree with Howard S. Schwartz that *corporations and the people who manage them create for themselves a self-contained, self-serving environment which rationalizes their own behavior and doesn’t require any justification for what they do?* (Narcissistic Project and Corporate Decay: The Case of General Motors) In our interview with the agents, **100% of them agreed with this description of a corporation, and 80% of the agents felt American Family fit this description.**

Schwartz also said corporations believe you should *do your work, achieve organizational goals, obey and exhibit loyalty to your superiors, disregard your personal values and beliefs, obey the law when necessary, obscure it whenever possible, and deny*

any internal discrepancies at odds with the corporate view. In our interview, **80% agreed with this description of corporations, and 60% of these agents felt American Family fit this description of a corporation.**

When the agents were asked for suggestions about **how corporate ethics might be monitored**, very few suggestions came forth. One agent suggested hiring an outside *corporation* to review their ethics, but then one has to ask about the ethics of that corporation, doesn’t one? Several agents suggested the Board should monitor the ethics for the corporation, but concern arose because Board members seem to be “hand picked” and therefore probably have similar ethical standards to the one selecting them. Still others said you can’t monitor ethics. You either have it or you don’t. **Most agents felt that whatever the corporate culture of a company is, it is that culture that drives the company and it filters down from the top.** Interesting comments, yes!

When the agents were asked if they thought the “perceived low ethical standards” of a company’s executives are the primary reasons workers might feel justified in responding or acting the same way (unethical), **80% said yes.** We received comments such as “monkey see, monkey do,” “if workers don’t feel respected or feel they are a part of the team, then they lose site of their own ethics,” “if your leaders are your examples, then those whose ethics are borderline may follow suit,” and “they will follow the leader.” It is definitely a fact that people tend to act and respond like their leader. But one has to ask why people don’t stand up for what they believe to be right? Are they afraid? Do they feel it is safer to “sit on the fence?” Is there such a thing as being “value-neutral?”

Samuel Blumenfeld said “you have to be **dead** to be **value-neutral.**” It seems everyone has a set of principals upon which they set their own ethics. **“Values are the ideas and beliefs that influence and direct our choices and actions,”** Blumenfeld says. So if we all have values, why are we so afraid to stand up for what we believe? Why we are so afraid to stand up for truth and what is right? Are we lazy or just apathetic? You decide!!

NAAFA must report to you that many of the agents we hear from do not feel they are being treated fairly. Of course, NAAFA is in a position where we will most likely hear about problems and *not* hear about the good

things that happen. We are pleased that we are in a place where agents can vent their concerns. We listen. We try to keep our members informed about what is going on in other states. We share what we have learned because often what we have learned helps others. It pays to be a member of NAAFA.

NAAFA would like to promote an attitude of truth, integrity, honesty and fairness to all. We are asking you all to make a commitment to achieve ethical behavior throughout the entire American Family organization, from top to bottom, but we

realize that the commitment should originate from the top. This newsletter goes out to 4000+ agents so we hope somehow that it has an impact on all of you. If you feel you can identify and support an organization such as NAAFA, please consider either a donation or membership. Remember, it is not only unethical, but very unwise for a corporation to threaten your job because you are a member of a professional organization such as NAAFA. Should you receive such a threat, NAAFA needs to hear about it immediately. Call 1-800-567-9668.

www.NAAFA.com

INTERESTED IN CORPORATE EXECUTIVE/MANAGEMENT SALARIES??

NAAFA members: You may visit the "Members' Only" portion of the www.NAAFA.com website to view all 2005 salaries for American Family employees with incomes over \$200,000.

THE AGENT FINANCING PLAN

Mention has been made earlier in the NAAFA Report about certain aspects of the Agent Financing Plan, better known as the ACP/ASP/ or AASP plans for new agents. This plan has received much attention lately as agents on some of these plans are finding their contracts being changed many times. Promises made to them have often been broken. But these facts do not only impact agents on these plans, but perhaps hundreds of agents who have been off such plans for many years. Read on!

American Family has three agents financing plans. The *average* agent on any of these plans takes an advance of approximately \$80,000 to \$85,000 per year. The Agent Financing Plans were to make up .74% of premium in 2006 or approximately \$47,000,000. By July of 2006, it was actually in the neighborhood of \$60,000,000 or some \$13,000,000 over budget!

In comparing American Family's expenses for new agents to those of its peers, we find that American Family is 4th highest compared to 10 of its peers and actually the highest when compared to Allstate and State Farm.

Obviously, some of the projections simply were not proving to be true. AASP agents received renewals but no indication was found that this increased retention. The increased staffing did not lead to an increase in production. The model plan could easily be manipulated. Production levels predicted simply were not realistic. Somebody goofed. By now, most of you know whose head went on the chopping block. But NAAFA asks, "Where were the checks and balances?" Was there no "watch dog?"

So what is American Family doing about this "waste" of money? Well, by now most agents on the plans know the sad news. NAAFA won't go into all the details, but there is one item that needs your attention. **To keep the Agent Financing Plans alive, the Company is placing the highest priority on the immediate transfer of some 250 policies per agent (there are approximately 670 agents on these plans!) That totals some 167,000 policies that must come from somewhere. Any ideas?**

NAAA believes the Company's need for some 167,000 policies is urgent. Consider this. If the average American Family agency is about 1500 policies, then we are about to see **some 112 agencies disappear in the near future**, if they haven't already. This is how the Agent Financing Plans

affect hundreds of other agents in the company. Please note that if you divide 112 agencies by 18 states, that's an average of about 6 agencies per state that need to be terminated. That doesn't sound like much, does it? Unless it's your agency! Is this ethical? YOU DECIDE!

WHAT I WISH THE COMPANY KNEW!

...that when I am out of the office attending repetitious "mandatory" training meetings or award meetings that, of course, I'm not selling insurance. Duh!

...that the reason I complain about spending so much money on gas is that I have to travel to all those stupid meetings!

...that the reason I'm so depressed is because of prospective commission cuts or the possibility of being terminated or because of harassment by underwriting or because of the continuous requests by my District Manager for progress reports or because the rates are so high I simply can't sell anything or because the Company keeps shoving more and more work on my shoulders.

...that I'm not stupid. I know that I'm being paid a commission when I sell something. Why wouldn't I want to sell? Duh!

[Send your ideas for this column to www.naafawest@comcast.net]

www.NAAFA.com

A LEGACY??

Soon American Family will be reporting on the legacy left by Harvey Pierce as he retires. They will mention how he led the Company from a million dollar company to a billion dollar one. They will mention how American Family became a Fortune 500 Company under his leadership. They will mention how American Family has become a fiscally strong company, putting millions of dollars into their reserves. The accolades will go on and on, but exactly *what has he done for the agents and the policy holders?* Beyond the financial picture, one must look further into the ethics and morals of the Company and at what cost this growth has been achieved.

The first thing that comes to mind is the agents' commission cuts. Didn't this occur under Harvey's watch? How about the decision to reduce transfer

business commission to 6%? How about the great CIM billing system we now have? Wasn't that developed under Harvey's watch, also? Several other "sensational accomplishments" at American Family should also be mentioned, such as:

- Disability income, long term care, pension max concept, several different health products at a Company cost of how much??
- The exclusion of group health for new agents.
- Countless numbers of life products have come and gone. When a good product like the L-100 was introduced, it was praised by the entire life insurance industry as the best life product on the market. Unfortunately, American Family caught wind of that and stripped it of all values, leaving agents and clients holding the bag. And, if you take a good look, American Family has stripped all its whole life policy values to zero under Harvey's watch.
- Class Action Lawsuit for discrimination on Homeowners' policies sold in Milwaukee.
- Class Action Lawsuit on Life Illustrations
- American Family's rating lowered by Bests.

Under Harvey's watch the number of home office employees (compared to the number of agents) has grown from roughly 1.5 home office employees to just over 2.25 home office employees for each agent in the field. Almost all field underwriters became a thing of the past in order to cut costs. In fact, the number of underwriters, claim representatives, clerical staff, people who are most beneficial to the success of agents, have been greatly reduced, leaving more of the underwriting, inspecting, data entry and even claims handling on the shoulders of agents. The increase in employee numbers is seen in middle management and ISO personnel who perhaps help the Company, but do very little, if anything, that is beneficial to the agency force.

At the time Harvey Pierce took over, it could still be said that the highest paid person in the Company was an agent. Now, the top paid agent would have to make over \$1,000,000 just to compete with the six corporate officers in American Family. If an agent made \$400,000 per year, he/she would still be only the 28th highest paid person in the entire company!

We are encouraged to believe everything the Company tells us. We agents have chosen to work

for American Family and so we want to believe what the Company tells us so badly that we begin never to question, never to evaluate, never to compare. Soon we are blinded by scruples that don't reflect our own true values. We're backed into a corner with the sick, discouraging feeling that we can do nothing about it.

But remember, you can stand up for what you believe. Learn to recognize what is true and what is not. Take a stand against what is not right. Silence means you accept what is bad. There is no neutral ground. What made American Family a great place to work and have a career in the past will be gone forever unless agents who don't like working in an unethical environment take the lead in re-establishing ethics and fairness once again.

[Agent's name withheld by request.]

NAAFA is your voice. Join today.

FRANCHISE INFORMATION:

NAAFA has received from its attorney a review of the two most current agent contracts as they pertain to being a franchise. MEMBERS are allowed to view this report. Please visit our website at www.NAAFA.com to find out more information about this valuable evaluation. If you need your password, please call 1-800-567-9668.

CREDIT SCORING

NAAFA is interested in hearing from agents regarding how the credit scoring is going in the test states. We want to hear both pros and cons.

Please contact us at one of the following ways: Email:

www.naafawest@comcast.net

Phone: 1-800-567-9668 Fax: 763-208-0924.

NAAFA wishes to thank everyone for the support we have received from you, for contributing articles, and for constantly encouraging us. We

want to wish everyone a very Merry Christmas and a prosperous New Year!

WHY ARE AGENTS IN OHIO THE TARGET OF AMERICAN FAMILY TERMINATIONS?

During the past year agents in Wisconsin and Colorado as well as Ohio have received 6-month termination notices. Many of these agents in Wisconsin and Colorado received notice that these terminations had been rescinded. In some of the situations the rescinding notice came within days of the official termination date. But the agents in Ohio have not had their terminations rescinded. Why the discrepancy?

Could the fact that many Ohio agents are just now approaching the year that they qualify for Termination Benefits have something to do with why American Family wants to get rid of so many Ohio agents? Could it be that agents who are over 50 (and/or been with the Company for 15 years or longer) would be able to successfully sue for discrimination?

Agents in Ohio are relatively new to the American Family sacrificial policy regarding agent terminations. They simply haven't been around long enough to realize how brutal the Company is when it wants your agency. These agents need to join forces, pool their resources to seek legal counsel, send letters to Madison officials, and support NAAFA, the only organization that has only your best interests at heart. Instead of becoming defensive, agents need to become proactive. Communicate with agents who have experience in these matters in other states. How? Join NAAFA today!

GOOD NEWS IF YOU WANT TO JOIN NAAFA

Any **new annual membership** applied for between the dates of January 1, 2007 and June 1, 2007 will be reduced to the special rate of **\$192.00**. This is a 20% savings for the first year and is applicable only to the annual membership dues amount. **PLAN TO JOIN JANUARY 1, 2007.**

NAAFA is also offering annual memberships to ACP and AASP agents at the rate of **\$120.00** per year or **\$10** per month on EFT.

[Please note that annual dues at the Allstate Agents Association is: \$350. At State Farm it is \$350. At Farmers, annual dues are \$360.]

What a deal at NAAFA!!

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